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SAUDI OIL REVENUESMICRO
ONLY

Saudi Arabian oil revenues recently have risen to nearly \$2 billion a month. Practically all payments are based on the tax rates and royalties applicable to company-owned oil. Tax payments are made three months after lifting and royalties payments one month after lifting. Payments for oil owned by Jidda as a result of the recent partial nationalization of the industry are currently under negotiation. Once agreement is reached, the oil companies will owe Saudi Arabia an estimated \$3 billion in back payments for oil already lifted. The table shows payments made to the Saudi central bank for taxes and royalties so far this year.

Payments to the Saudi Arabian Government
1974

Million US \$				
<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>July</u>	<u>August</u>	<u>September</u>
2,000	5,000	1,750 est.	2,000 est.	1,850 est.

Most Saudi funds are invested in short-term loans and deposits in the Eurodollar market. The current trend in new investment is toward medium- and long-term opportunities. Jidda is apparently considering moderate purchase of government securities and increased purchases of stocks and real estate in developed countries. Aid and preferential loans to developing nations are also on the rise.

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SAUDI OIL PRODUCTION IN AUGUST --. WHAT HAPPENED?

Saudi Arabian oil production last month was about 8.2 million b/d, or about 800,000 b/d below the record reached last May and more than 1.5 million b/d below capacity.

Aramco's August production probably averaged about 7.9 million b/d. This was slightly above the 7.7 million b/d estimated by some oil company officials but 600,000 b/d below the nominal "ceiling" set by the Saudi government. Output was down sharply during the first half month, but jumped back up during the final 10 days of the month.

The companies have publicly attributed the cutback to a three-day period of poor weather and their inability to reschedule enough tankers to make up for the shortfall. Aramco has declared that the cutback was not a voluntary decision. However, this year there has been a dramatic reduction in worldwide demand for oil products by consumers because of high oil prices. The oil industry's refining and distribution system appears to be saturated. Loaded tankers are operating at reduced speeds and in effect are being used as floating storage. It seems to us that the real reason for reduced liftings in Saudi Arabia is the current over-supply of crude oil. This is further indicated by the reduced flow of Saudi oil by pipeline to the eastern Mediterranean, since this was unaffected by weather. There was no attempt by the Saudi government to lower production.

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After mid-month the company rapidly boosted production to bring up the monthly average presumably because adverse publicity resulting from the cutbacks was so great. Aramco production is now running about 8.6 million b/d.

Total Saudi production is currently about 8.9 million b/d. The remaining 300,000 b/d of production is an estimate for the Saudi's share in the Neutral Zone. There have been no reports of reduced liftings from this area.

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THE BANKING SITUATION IN EUROPE

The European banking structure is currently going through a period of acute stresses for several reasons:

Tight money policies throughout Europe are causing some liquidity problems.

The recent spate of bank failures has caused a loss of confidence in small banks and has resulted in a shift of business to larger, more reputable institutions creating severe liquidity problems for some smaller European banks.

The Herstatt failure and losses by other banks in foreign exchange dealings has reawakened awareness of the perils of unregulated foreign exchange trading in a period of floating rates.

The Eurocurrency market is being strained by having to intermediate short-term "petrodollar" deposits into longer-term loans to oil-consuming countries.

Few people view the current situation as critical, however.

Herstatt has been the only major bank to fail so far. The other failures involved extremely small institutions, and reflect a more laissez-faire attitude on the part of some European central banks than is taken by the Federal Reserve or the Bank of England, which might cover up prospective failures by arranging mergers.

Despite the current tight money policies, the European governments are obviously aware of the perils of going too far and would loosen up if there were a severe liquidity shortage.

Banks are now approaching foreign exchange trading with more caution, and some governments are taking steps to regulate trading or monitor it more closely.

Many people feel that the Eurodollar market, which has proven to be quite inflexible in the past, will adapt to the changing conditions.

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MEMORANDUM FOR: S-6462

Deputy Assistant to DCI

Attached is the information you requested this morning to answer a reporter's questions.



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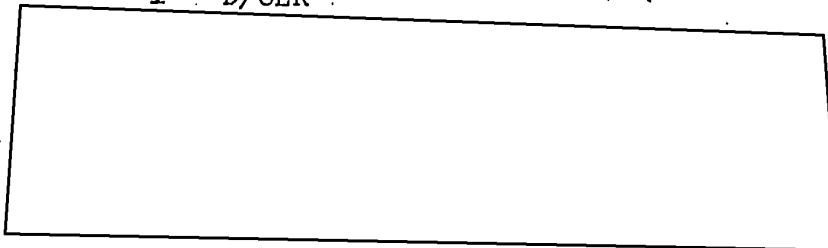
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